

COUNTY EXECUTIVE'S 2008 BUDGET

DEPT: EMPLOYEE FRINGE BENEFITS

UNIT NO. 1950

FUND: General - 0001

OPERATING AUTHORITY & PURPOSE

Pursuant to the provisions of Section 59.51(2) of the Wisconsin Statutes, the County Board may represent the County and have management of the

business and concerns in all cases where no other provision is made.

BUDGET SUMMARY				
	2006 Actual	2007 Budget	2008 Budget	2007/2008 Change
Health Benefits-Hospital, Professional, Major Medical & Dental	\$ 122,883,995	\$ 135,110,570	\$ 138,700,915	\$ 3,590,345
Employee Group Life Insurance	1,616,083	1,767,800	1,693,000	(74,800)
Annuity – County Mandatory Contribution	35,154	42,000	31,500	(10,500)
Retirement System Contribution- OBRA	462,000	529,000	522,000	(7,000)
Retirement System Contribution	27,400,000	49,265,000	38,773,571	(10,491,429)
Medicare Reimbursement to Retired Employees	5,370,131	5,876,000	6,512,000	636,000
Health Benefits and Retirement- Consultant Fees	76,119	350,000	1,244,285	894,285
Local Transportation (Transit Pass Program)	487,772	540,204	542,700	2,496
Other Contributions	1,161,852	1,328,084	1,000,000	(328,084)
Personnel Related Costs	0	128,837	0	(128,837)
Actual Adjustment	0	0	0	0
Total Expenditures	\$ 159,493,106	\$ 194,937,495	\$ 189,019,971	\$ (5,917,524)
Abatements	(152,841,725)	(191,244,217)	(182,672,272)	8,571,945
Total Direct Revenue	\$ 7,511,867	\$ 7,911,590	\$ 6,347,699	\$ (1,563,891)
Direct Total Tax Levy	\$ (860,486)	\$ (4,218,312)	\$ 0	\$ 4,218,312

BUDGET HIGHLIGHTS

County Board and Department of Audit staff, in consultation with the Controller and Director, Department of Administrative Services, conducted a study of alternative options to allocate fringe costs to departmental budgets. A report was submitted to the Committees on Finance and Audit and Personnel for consideration in March 2007, and the following methodology was adopted by both Committees and the County Board for the 2008 Budget process:

2008 Budget Per Eligible FTE Fringe Benefit Cost Detail

	Health Care	Health Care as % of Salary*	Pension % of Salary	Total
Active Employee	\$14,224	29.36%	11.77%	41.13%
Legacy Cost	\$13,582	27.86%	4.21%	32.07%
TOTAL:	\$27,806	57.22%	15.98%	73.20%

*Percent of Salary shown for presentation purposes

In the 2008 Budget Employee Fringe Benefits are segregated into two components, including health care and pension. The health care portion is budgeted as a fixed cost per eligible FTE reflecting the way the costs are

Five-year comparisons of budget and actual experience are based on adjusted budget figures.

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incurred. The health care portion includes all health benefits and other non-pension related benefits. The pension component is calculated as a percent of salary and includes all of the retirement system contributions.

5403 - Health Benefits - Hospital, Professional, Major Medical and Dental Expense

Increase \$3,590,345, from \$135,110,570 to \$138,700,915

Projected changes from the 2007 to the 2008 Employee Health Benefits Budget are as follows:

	2007 Budget	2008 Budget	2007/2008 Change	Percent Change
Basic Health Benefits, Including Major Medical	\$ 129,529,570	\$ 133,350,000	\$ 3,820,430	2.95%
Wellness Program Savings	0	(1,059,285)	(1,059,285)	NA
Mental Health/Substance Abuse/EAP Carve-Out	1,312,300	1,377,900	65,600	5.00%
Employee Assistance Program & Health Waiver*	220,000	227,700	7,700	3.50%
County Dental Plan	1,579,400	2,245,800	666,400	42.19%
Dental Maintenance Organizations (DMO)	2,469,300	2,558,800	89,500	3.62%
Total Health Benefit Cost	\$ 135,110,570	\$ 138,700,915	\$ 3,590,345	2.66%

* In 2007, the Employee Assistance Program and Employee Health Plan Waiver were reported separately. These two expenditure components are combined for 2008.

In 2006, the County entered into a four-year contract with Wisconsin Physician Services (WPS), Inc., to provide health insurance coverage. This contract continues in 2008 on a self-insured basis for both the HMO and PPO plan products with estimated expenditures totaling \$133,350,000. The expenditure estimate is based on actual health insurance claims data and actual enrollment data for 2007 at the time of publication. The estimate assumes an inflation/growth factor of 10 percent for the overall cost of providing health insurance. Fixed costs such as administration and stop-loss insurance fees are also included in the estimate provided above.

The total cost to the County may rise or fall depending on changes in the number of health care contracts, utilization and price/provider rate structure in the overall health care market. In 2007, a collective bargaining agreement was reached with AFSCME District Council 48, the County's largest union, which extends through the end of 2008 and is captured in the health care expenditure estimate. The County has yet to reach agreements with certain unions, which could further impact health insurance costs in 2008.

The Wellness and Disease Management Program is detailed below under 6000s – Health Benefits and Retirement Contribution – Consultant Fee/Professional Services. The projected savings associated with this program are shown above as a reduction in costs in Health Benefits.

A five-year comparison of budget and actual experience for all health benefits (including medical, dental, mental health, employee assistance, run outs, etc.) is as follows:

Year	Modified Budget	Actual	% Change of Actual from prior year
2002	\$ 76,774,595	\$ 81,476,337	--
2003	\$ 80,601,606	\$ 84,875,417	4.17%
2004	\$ 101,269,028	\$ 99,630,209	17.38%
2005	\$ 112,174,416	\$ 120,243,817	20.69%
2006	\$ 125,166,827	\$ 123,744,481	2.91%
2007*	\$ 135,110,570	--	--
2008	\$ 138,700,915	--	--

* - Data from 2007 Adopted Budget

Five-year comparisons of budget and actual experience are based on adjusted budget figures.

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5404 - Employee Group Life Insurance

Decrease \$74,800, from \$1,767,800 to \$1,693,000

The group life insurance appropriation is based on the coverage amount, which in turn is based on employees' salaries.

A five-year comparison of budget and actual experience for group life insurance is as follows:

Year	Modified Budget	Actual	% Change of Actual from prior year
2002	\$ 1,449,666	\$ 1,450,167	--
2003	\$ 1,500,598	\$ 1,514,694	4.45%
2004	\$ 1,486,866	\$ 1,443,500	(4.70%)
2005	\$ 1,421,458	\$ 1,536,955	6.47%
2006	\$ 1,683,661	\$ 1,616,083	5.15%
2007*	\$ 1,767,800	--	--
2008	\$ 1,693,000	--	--

* - Data from 2007 Adopted Budget

5405 - Annuity - County Mandatory Contribution

Decrease \$10,500, from \$42,000 to \$31,500

The budget for the County's mandatory annuity contribution relates to eligible employees who have been members of the pension system prior to January 1, 1971 at the following rates:

- 8 percent of earnings for Deputy Sheriff
- 8 percent of earnings for Elected Officials
- 6 percent of earnings for Other Employees

A five-year comparison of budget and actual experience for the annuity contribution is as follows:

Year	Modified Budget	Actual	% Change of Actual from prior year
2002	\$ 525,000	\$ 413,645	--
2003	\$ 496,375	\$ 349,739	(15.45%)
2004	\$ 417,000	\$ 233,178	(33.33%)
2005	\$ 313,000	\$ 45,185	(80.62%)
2006	\$ 42,000	\$ 35,154	(22.20%)
2007*	\$ 42,000	--	--
2008	\$ 31,500	--	--

* - Data from 2007 Adopted Budget

5406 - Retirement System Contribution - OBRA

Decrease \$7,000, from \$529,000 to \$522,000

The OBRA pension contribution was established as a separate account in 2002 to differentiate from the Employee Retirement System contribution made for full-time County employees.

Five-year comparisons of budget and actual experience are based on adjusted budget figures.

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A five-year comparison of budget and actual experience for the Retirement System Contribution - OBRA is as follows:

Year	Modified Budget	Actual	% Change of Actual from prior year
2002	\$ 274,972	\$ 274,972	--
2003	\$ 279,727	\$ 279,727	1.73%
2004	\$ 348,000	\$ 348,000	24.41%
2005	\$ 365,000	\$ 365,000	4.89%
2006	\$ 462,000	\$ 462,000	26.58%
2007*	\$ 529,000	--	--
2008	\$ 522,000	--	--

* - Data from 2007 Adopted Budget

5409 - Retirement System Contribution

Decrease \$10,491,429, from \$49,265,000 to \$38,773,571

The table below, provided by the Department of Audit, provides details on annualized pension payments.

Five-year comparisons of budget and actual experience are based on adjusted budget figures.

COUNTY EXECUTIVE'S 2008 BUDGET**DEPT:** EMPLOYEE FRINGE BENEFITS**UNIT NO.** 1950**FUND:** General - 0001**Milwaukee County Annualized Pension Payments (May 2007)**

Annual Retirement Payments			Number	Percentage	Cumulative Percentage	Average Payment	Total Payments
\$0	to	\$10,000	1,848	29.6%	29.6%	\$5,587	\$10,324,675.68
\$10,001	to	\$20,000	1,919	30.7%	60.3%	\$14,966	\$28,719,015.72
\$20,001	to	\$30,000	1,435	23.0%	83.3%	\$24,639	\$35,356,361.04
\$30,001	to	\$40,000	621	9.9%	93.2%	\$34,111	\$21,182,769.72
\$40,001	to	\$50,000	264	4.2%	97.4%	\$44,413	\$11,725,023.60
\$50,001	to	\$60,000	100	1.6%	99.0%	\$53,883	\$5,388,288.00
\$60,001	to	\$70,000	39	0.6%	99.6%	\$64,587	\$2,518,895.16
\$70,001	to	\$80,000	17	0.3%	99.9%	\$74,002	\$1,258,036.92
\$80,001	to	\$90,000	2	0.0%	100.0%	\$84,015	\$168,030.48
\$90,001	to	\$100,000	1	0.0%	100.0%	\$96,942	\$96,942.24
\$100,001	to	\$110,000	1	0.0%	100.0%	\$106,121	\$106,120.92
\$110,001	to	\$120,000	1	0.0%	100.0%	\$117,753	\$117,752.52
Total			6,246	100.0%	100.0%	\$18,726	\$116,961,912.00
						Average	\$18,726
						Median	\$16,601
						Average Years of Service	24

Note: A total of \$128.1 million in backDROP lump sum payments was issued to 984 individuals upon retirement as of May 2007. Exercising the lump sum payment option reduced subsequent annual pension payments for those individuals. The net actuarial impact of the lump sum backDROP payments and subsequent annual pension reductions has not been calculated.

Source: Department of Audit calculations from May 2007 ERS retired participant checks, annualized.
Does not include payments for disability or beneficiary participants.
Average years of service based on retirees from active service during past nine years.
BackDROP data calculated from ERS monthly retirement reports.

The 2008 Budget provides \$38,773,571 for the County's contribution to the Milwaukee County Employees' Retirement System (ERS). This contribution includes \$21,931,000 of normal costs and \$16,842,571 for the amortization of the unfunded actuarial accrued liability (UAAL), interest on Pension Obligation Bonds and funding of a pension stabilization fund. The 2008 Budget anticipates the use of Pension Obligation Bonds to provide current and long-term savings for the County, plus a significant reduction in the UAAL.

The County received an updated actuarial report from Buck Consultants, dated June 20, 2007. For 2008, the actuarial report anticipates a UAAL of \$329,000,000. Based on this UAAL, the actuary reported a proposed County contribution for 2008 of \$49,707,000, which includes \$27,776,000 of UAAL amortization and \$21,931,000 of normal costs. To provide for a significant reduction in the UAAL, the 2008 Budget anticipates the issuance of \$267,000,000 of Pension Obligation Bonds (POB's) to fund the majority of the UAAL. With the issuance of these POB's, the 2008 cost of the amortization of the UAAL would decrease, and the savings would be used to reduce the 2008 budgeted pension contribution, pay for first year interest on the POB's, and make an initial substantial contribution to a pension stabilization fund. A stabilization fund would be established as a future pension reserve against cost increases due to actuarial assumption changes, or market value changes.

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The proposed POB issue for 2008 would be \$267,000,000. The POB issue amount is based on a 2008 UAAL of \$329,000,000 less \$62,000,000 of deferred market gains that will be realized, on an actuarial basis, over four years. The UAAL represents the difference between actuarial assets and actuarial liabilities. If the UAAL were based on asset market value, the UAAL would only be \$267,000,000. This positive variance of \$62,000,000 in market value is due to the fact that the actuarial asset value does not recognize all asset gains/losses immediately but instead recognizes these gains or losses over a five-year period. The County has earned approximately \$62,000,000 in market value gains that will be recognized on an actuarial basis over a four year period. Therefore, the proposed POB issue amount recognized this deferred market value gain of \$62,000,000 immediately by reducing the POB issue to \$267,000,000. If the County realizes 8 percent earnings on the pension fund for the next four years, then all of the deferred market gains will be realized and the pension fund UAAL will be reduced to \$0.

The proposed POB issue would be for a 25-year term. A 25-year term was selected because this term most closely approximates the current amortization of the UAAL. The structure includes \$175,825,000 in fixed rate bonds and \$94,670,000 in floating rate bonds. Total costs for the proposed POB issue consist of total debt service of \$540,545,611 over the term of the bonds and the amortization of the remaining UAAL and administrative fees of \$29,383,320 for total costs of \$616,338,443. If the County did not issue POB debt, the continuing cost of amortizing the UAAL liability would be \$706,329,183. Therefore, based on current assumptions, the overall savings for the POB financing would be approximately \$90,000,000.

The proposed financing would provide an estimated budgetary savings of \$10,491,429 in 2008 and also allow the County to make an interest-only payment of \$8,131,021 on POB debt. Typically, the County does not make interest or principal payments on new debt issuances until the year after the debt is issued. The POB debt structure provides level debt service payments of approximately \$20,970,000 from 2009 through 2033. The level debt service payment would provide stabilized payments for the County. With an initial deposit of \$4,540,322 to the stabilization fund in 2008 and continuing annual contributions of \$2,000,000 thereafter, the County could choose to utilize a stabilization fund to retire the balance of the bonds within 21 years. It should be noted that there would be a budgetary increase in 2009 of approximately \$8,700,000 based on the current actuarial projection. The projected 2009 payment amount of \$25,579,402 includes a debt service payment of \$20,970,000, a stabilization fund contribution of \$2,000,000 and a UAAL payment of \$2,609,402.

As discussed earlier, with the issuance of bonds to finance \$267,000,000 of the \$329,000,000 UAAL, the County would be left with an unfunded liability of \$62,000,000. This unfunded liability will be reduced over the next four years by the deferred market gains. Since this offset will occur over a four-year period, there will be a timing difference in the UAAL amortization of the remaining unfunded liability and the deferred market gain. Therefore, the County will have estimated UAAL amortization payments of \$4,171,228 in 2008, \$2,609,402 in 2009, \$1,789,171 in 2010 and \$881,102 in 2012. In addition, the pension plan will continue to pay for the administrative costs of the fund. These administrative costs are charged back to the County as a UAAL amortization payment. The amortization of the future administrative costs and the amortization of the variance between the remaining UAAL and the deferred market gain will result in future total UAAL amortization costs of \$29,383,320. Once the deferred market gains are realized and deposited in the pension fund, the County would only have an unfunded liability due to administrative costs.

A change in State Statutes is required in order to use the preferred financing mechanisms to develop a pension obligation bond proposal. This includes, but may not be limited to, the authority to issue 30-year debt (to match the current unfunded liability amortization period) and to use alternative debt instruments (other than general obligation bonds) to develop a proposal that reduces the County's risk and maximizes its financial flexibility. A POB work group ("Work Group") has been authorized and consists of staff from the DAS, Corporation Counsel, Department of Audit, a County Board Fiscal and Budget Analyst, an actuary, outside bond counsel and financial advisors. Intergovernmental Relations staff, working in conjunction with the Work Group, is seeking State policymaker approval of the financing mechanisms needed to construct a POB proposal.

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The Work Group is charged with developing a recommended POB proposal for review and approval by the Committee on Finance and Audit and County Board of Supervisors. It is understood that any proposal will be dependent on securing the needed changes to State law and a credit market that is favorable to the proposed plan. The proposal shall be accompanied by a report by the Work Group that provides a comprehensive assessment of the potential risk to the County, including an actuarial assessment of the impact to the Employees' Retirement System. As part of the due diligence prior to any pension obligation bond issuance, the Pension Board's actuary will also examine all current assumptions related to the calculation of the pension fund's assets and liabilities. This includes, but is not limited to, the assumed rate of investment return, amortization periods, individual employees salary growth assumptions and potential "smoothing" of any previously enacted assumption changes. This due diligence process will be followed with regard to the recommended POB proposal.

5416 - Medicare Reimbursement to Retired Employees

Increase \$636,000, from \$5,876,000 to \$6,512,000

This account provides for County payment of the Medicare Part D premium for retired employees, including their eligible beneficiaries over age 65, who retired with 15 or more years of pension-credited service or are on Disability Medicare. The actual cost of the premium is not yet finalized by Congress.

A five-year comparison of budget and actual experience for Medicare reimbursement to retired employees is as follows:

Year	Modified Budget	Actual	% Change of Actual from prior year
2002	\$ 3,320,970	\$ 2,930,049	--
2003	\$ 3,714,216	\$ 3,805,265	29.87%
2004	\$ 4,028,728	\$ 4,007,933	5.33%
2005	\$ 4,610,081	\$ 4,662,442	16.33%
2006	\$ 5,329,377	\$ 5,370,131	15.18%
2007*	\$ 5,876,000	--	--
2008	\$ 6,512,000	--	--

* - Data from 2007 Adopted Budget

Under the Medicare Prescription Drug Improvement and Modernization Act of 2003 and implementing regulations at 42 C.F.R. subpart R (Medicare Part D), the County estimates revenue of approximately \$2.8 million in 2008. This revenue will be deposited into a non-departmental account (Org. Unit 1969—Medicare Part D Revenue).

6000s - Health Benefits and Retirement Contribution- Consultant Fees/Professional Services

Increase \$894,285, from \$350,000 to \$1,244,285

An appropriation of \$185,000 is included to retain outside consultants to assist the Department of Administrative Services – Employee Benefits (Org. Unit 1180) staff in actuarial analysis, ad hoc reporting, requests for proposal and contract/rate negotiations, and other areas where an additional expertise in health care advisory services may be needed.

The 2008 Budget includes an appropriation of \$1,059,285 for a new Wellness and Disease Management program that will be offered to all active employees and their spouses in 2008. The estimated cost of this new program is based on calculations prepared by Cambridge Advisory Group, assuming 50% participation in the Health Risk Appraisal and \$100 incentive payments to all participants. The actual cost will be based on the outcome of a Request for Proposals process and also may be impacted by the outcome of a labor arbitration process. The budget also assumes – based on calculations by Cambridge Advisory Group – that the estimated cost of the

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initiative will be fully offset by estimated medical savings for no net tax levy impact. It is anticipated that savings will grow as the program gains greater acceptance and participation and as the wellness and disease management strategies have more time to produce results.

6804 - Local Transportation (Transit Pass Program)

Increase \$2,496, from \$540,204 to \$542,700

An appropriation of \$542,700 is included to cover the continuation of the County's corporate transit pass program based on approximately 766 enrollees. The County (as the employer) purchases quarterly passes for \$177.00 each. For 2008, the employee reimburses the County \$30.00 per quarter/\$10.00 per month through a payroll deduction.

8299 – Other Contributions

Decrease \$328,084, from \$1,328,084 to \$1,000,000

Costs associated with the County's obligation to United Regional Medical Services in the amount of \$1,000,000 for pension-related expenses from the closure of John L. Doyme Hospital are included in this budget for 2008.

Total Direct Revenue

Decrease \$1,563,891, from \$7,911,590 to \$6,347,699

Year	Modified Budget	Actual	% Change of Actual from prior year
2002	\$ 7,872,977	\$ 7,660,468	--
2003	\$ 7,526,764	\$ 7,216,382	(5.80%)
2004	\$ 7,072,826	\$ 7,802,303	8.12%
2005	\$ 7,307,013	\$ 7,503,057	(3.84%)
2006	\$ 8,134,045	\$ 7,511,867	0.01%
2007*	\$ 7,911,590	--	--
2008	\$ 6,347,699	--	--

* - Data from 2007 Adopted Budget

Total direct revenue is an offset to employee fringe benefit expenditures. This revenue includes the following items: employee health insurance contributions (active and certain retirees), employee transit pass contributions and Doyme pension offsets.

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